Panel Two

The Economics of Local TV Broadcasting — Revenues and Expenses

Panelists

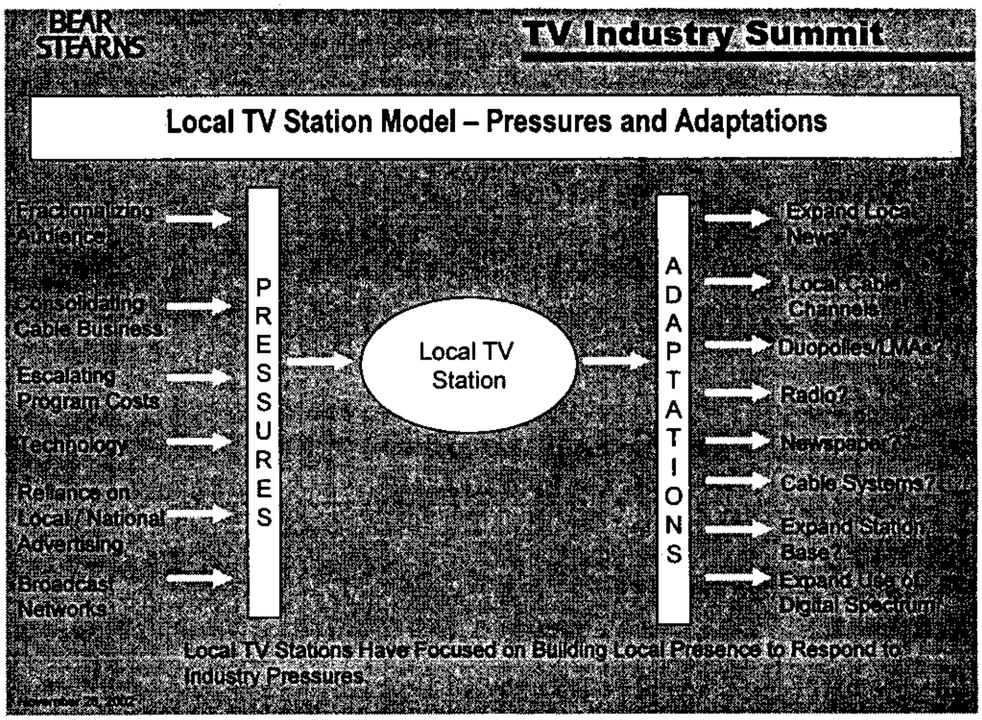
Bruce Baker — Executive Vice President, Cox Television

Gary Chapman — Chief Executive Officer, LIN TV Corp.

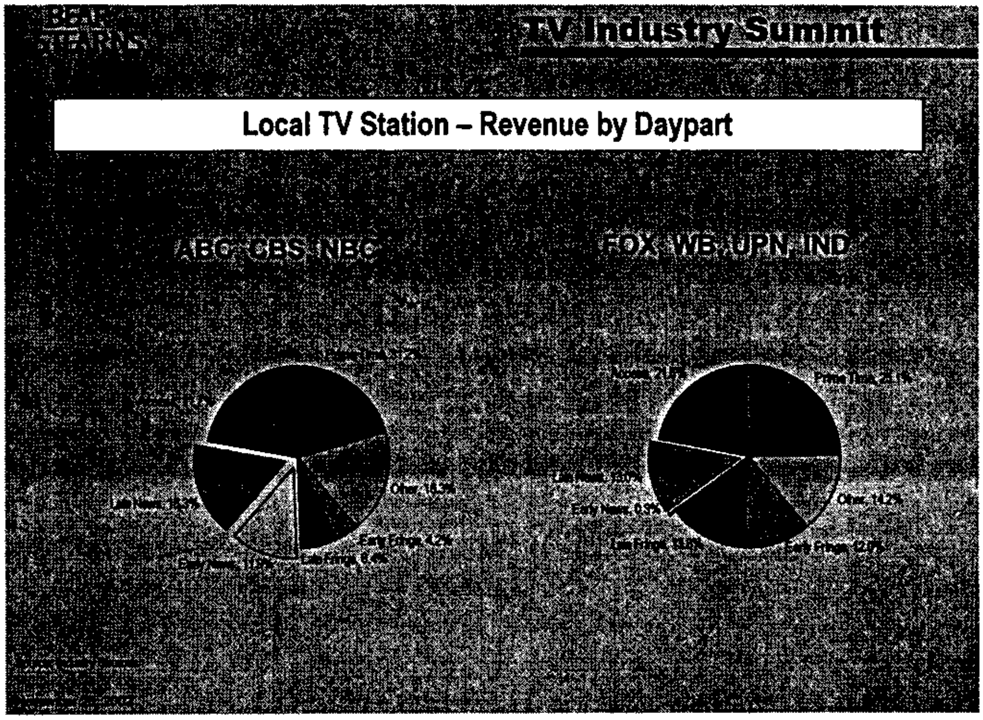
Kevin O'Brien — President, Broadcasting Group, Meredith Corp.

Jeff Smulyan — Chairman, Emmis Communications

Panel Time: **950 A.M. to 11:00 A.M. E.S.T.**



Victor Miller: We're going to start with Panel Two. The first panel really focused on some of the pressures that are being exerted on the local television station model. And now what we're going to do is see how some of those pressures are translating into the revenue side **of** the business specifically, and we're also going to talk about the cost side of the business. We're going to talk about what the local TV station actually looks like from the revenue and expense side, and we'll talk about whether we need changes in terms of second revenue streams. And I have a feeling that Jeff Smulyan may have an opinion on that . . . we'll see. For this panel, we have Bruce Baker, who is the executive vice president of Cox Television. We have Gary Chapman, the chief executive officer of LIN Television. We have Kevin O'Brien, the president of the Broadcasting Group from Meredith. And we've got Jeff Smulyan, the chairman of Emmis Communications. I appreciate you all being here.



Let's kick it off. . . here's revenue by daypart. We show what a typical ABC, CBS, NBC station looks like. Given that this is about right for the industry, which are your most profitable dayparts? And which ones are your least profitable dayparts? Why don't we start with you, Mr. Gary Chapman?

> "Our most profitable dayparts actually are **news.**"

Gary Chapman: Our most profitable dayparts actually are news. We have a little more revenue in the news than on this slide. . . some 38% of our total revenue comes through news. And we do about a 50% margin before overhead in news. ***So,*** that would be our most profitable. And of all the time periods, it's really from 5:00 to 7:00 in the morning — that two-hour block before the Today show, The ***Early Show*** on CBS, and Good ***Morning America.*** Now, our least profitable are where we paid too much for programming. That could be ***Oprah,*** or that could be 7:00 to 8:00 with Wheel ***of*** Fortune and ***Jeopardy.*** We just recently purchased a television station and found ourselves in that circumstances where the prior owner paid about twice as much as his revenue. So, basically . . .

Victor Miller: That's not a good thing.

Gary Chapman: Yes, about $2 million goes to Roger King, and they sell about one million, so that's probably not a good thing.

Victor Miller: Is it pretty consistent that news is the most profitable daypart? Bruce?

Bruce Baker: I think we have to position on a strong station that prime time is very profitable because the network is paying the cost for that — certainly you can'r overlook that. And I would agree with *Gary* that the morning 5:00 to 7:00 is profitable because the news operation is part of your expense base, so you do not have to factor a lot of that expense in the morning.

Victor Miller: What we're going to do now is move through these dayparts, bit by bit, and we'll start with the news side. And I'll start with you, Kevin. How many hours of local news are you producing now relative to five years ago? It's a question I asked on the last panel. And why are you producing or not producing more news?

"Stations that aren't expanding in local news, adding more news, are going to be held captive to syndicators, which seem to be few and far between now."

Kevin O'Brien: Well, let's see, I'll be giving you kind of a horseshoe's kind of estimate on that because I've only been on the job a year, but I'd say we're up about 20% in the amount of hours of news. We're definitely adding more news, especially in the morning. That seems to be the most vibrant time period for increased viewership in an area where a local station can dominate. Because in the morning, people want to know the local weather, the local traffic, what happened in our town overnight? So, we generally have a high rating. News is the one thing that has saved local television, and it's the one element and the one bastion of success and exclusivity that we have that's going to keep us dominant as an advertising medium for a very long time. And, therefore, it has to have a great emphasis. And stations that aren't expanding in local news, adding more news, are going to be held captive to syndicators, which seem to be few and far between now. And when they have a hit, it's hell to pay to keep it. So I think local news is a very, very good business strategy.

Victor Miller: Since we did spend an extensive amount of time on the news in the last panel, let's talk about the network dayparts a little bit. And we'll talk about early and late fringe as well. This is for anybody who'd like to take it. Have there been any major changes in the inventory load that stations keep relative to the networks during network-owned shows over, let's say, the last five years? And how do local stations help the networks' economics, and vice versa? Anybody want to start with that? Jeff!

"The networks need the stations, the stations need the networks — it's been a relationship that makes sense."

Jeff Smulyan: Well, obviously you have a unique distribution mechanism, which I think people have lost sight of. The fact is the networks need the stations, the stations need the networks — it's been a relationship that makes sense because, all of the television world — it's the terrestrially locally distributed model — really is unique. It's the only model that reaches not only 100% of the country, but also has a significant impact in local communities. It's a big differentiating factor.

Victor Miller: Any other comments on :hat?

Gary Chapman: I think there has been an expansion, obviously, of commercials on the network itself over the last five years. In terms of our representation of that, that has remained pretty constant in terms of the affiliates themselves. Of course, if you're a Fox affiliate, you get the privilege of buying back some of that network inventory, and if you're CBS, you may want to have to pay for some of the football — the same thing would be true for the Fox. So there are contributions by the affiliates for special programs. But the relationship is, again, I think, it relates to the strength of the individual TV stations. If, in fact, you are an NBC station, and Tom Brokaw is always No. 1 in ratings, you're probably going to have a pretty good relationship with NBC. If you're a CBS affiliate, and Dan Rather is always No. 1 in your markets, you're probably going to have a pretty good relationship with the networks. So, obviously, the stronger the station, the stronger the news on the station, usually the stronger the relationship.

Victor Miller: Kevin, you started to allude to . . . when we talked about early and late fringe . . . you started to allude to syndication and the product we can buy in syndication. If I'm right, in the next NATPE [National Association of Television Programming Executives], we should, in January, particularly over the next couple of years, the amount of new "off-network" programs . . . it doesn't look like there's a lot of programming coming down the pike. And I don't know what the case is for first-run programming. Can you give us a sense of what the syndication marketplace looks like in terms of station choices going forward? And why the market is robust or not robust with new programming coming down the line?

Kevin O'Brien: Well, Victor, it seems to go through different phases in syndication. We can go three to four years without a hit in, let's say, the talk genre. All of the sudden, out of the blue, boom, Dr *Phil.* And I predict that in the next year, there will be six or seven syndicators coming out with Dr. *Phil* type of imposters. It'll be a copycat situation. But it's the survival of the fittest, and what happens is when the court genre came out, a hell of a lot of court shows came out, and the really good ones survived. And so, syndication has a way of washing itself out.

"I think we have to start cleaning up our own house first."

But I do want. . . I've been thinking a lot about this panel and the information you e-mailed us, and I was trying to think, what is the real essence of the economics of the local television station as far as these people that are here in the FCC? And when you talk about inventory, I unfortunately — or not unfortunately — but interestingly enough, I've been in the trade press a lot lately, which I'm not crazy about. But anyway, it was about this supposedly adding inventory to my stations. Well, it just kills me that. . . that local stations. . . we have no control, even though we do control it, even though we are local stations, even though it's our business and our inventory, we are the biggest wimps in American commerce to people that are in this business, because we have allowed syndicators and networks to add inventory almost constantly year after year after year. And nobody says anything about it. *Life* Stories — Paramount came in and Bruce went from three and a half to four minutes on a show that wasn't a very good show. The decision was made by NBC to pick up the show. 1 mean, you have to be from the moon not to know that show wasn't going to work. And they put four minutes in it, and then we put another banana peel in front of us. And the industry goes and clears it, and I send letters out to every single president of every single company, and I sort of was lambasted for it. In other words, I think in our industry, we're going to have to face up to the fact that we're going to have to get tough, we're going to have to start protecting our businesses and stop worrying about what will people think about us. What people think about us among our peers and just do the right thing. Because if you look at all the problems that have taken place in our industry, cable not paying local television stations — how the hell did that happen? Major League Baseball and ESPN make a deal where local TV stations cannot televise local baseball games on a Wednesday to Sunday night. And I walked around the halls of Washington complaining about it. I didn't have one fellow broadcaster help me on that one. Then broadcast nets are the syndicators, adding inventory willy-nilly — the loss of compensation by networks. I heard someone say that Bob Wright might go to an alternate distribution system — well, that's hilarious. I'd love to see Bob Wright going in and meet with the cable MSO and try to get them to take his product without him paying for it. I mean, it's just ridiculous. And I can go on and on. And it's really a situation where I worry about the economics more from “the enemy is us” rather than I worry abut the FCC or any rulemaking or anything else. I think we have to start cleaning up our own house first.

Bruce Baker: The only thing I would say to you is that nobody in this room is going to be talking abut kids programming as an alternative, because that’s basically gone for us except for the FCC-friendly stuff. And that business has basically disappeared from local television because it’s all on cable now. So that was a time period, an opportunity, and a service that we provided that no longer is available to us. So, when you’re asking about what’s least profitable — it’s gone. It’s not only least profitable, it’s now gone as far as we’re concerned. And for ABC stations, they essentially get no inventory in kids programming with the ABC programs. So you’re asking about inventory and what’s changed, that’s one of the things that’s changed. I’m sorry, I didn’t mean to interrupt Jeff. I’m a wimp.

Victor Miller: No, this panel is the no-wimp panel.

Kevin O’Brien: We’ll see if you renew your ABC affiliation how big a wimp you are!

“This is an industry that bas given up its significant advantage and allowed other parties to stand between us and our customers.”

Jeff Smulyan: We always asked the question at Emmis, what happens if you were dropped in from a parallel universe? I was dropped in from a parallel universe — radio — and I couldn’t agree more with what Kevin just said. This is an industry that has given up its significant advantage and allowed other parties to basically stand between us and our customers. And that’s true on the station side, that’s true on the network side. Victor promised me the phones would start ringing when I got into this.

Victor Miller: Exactly.

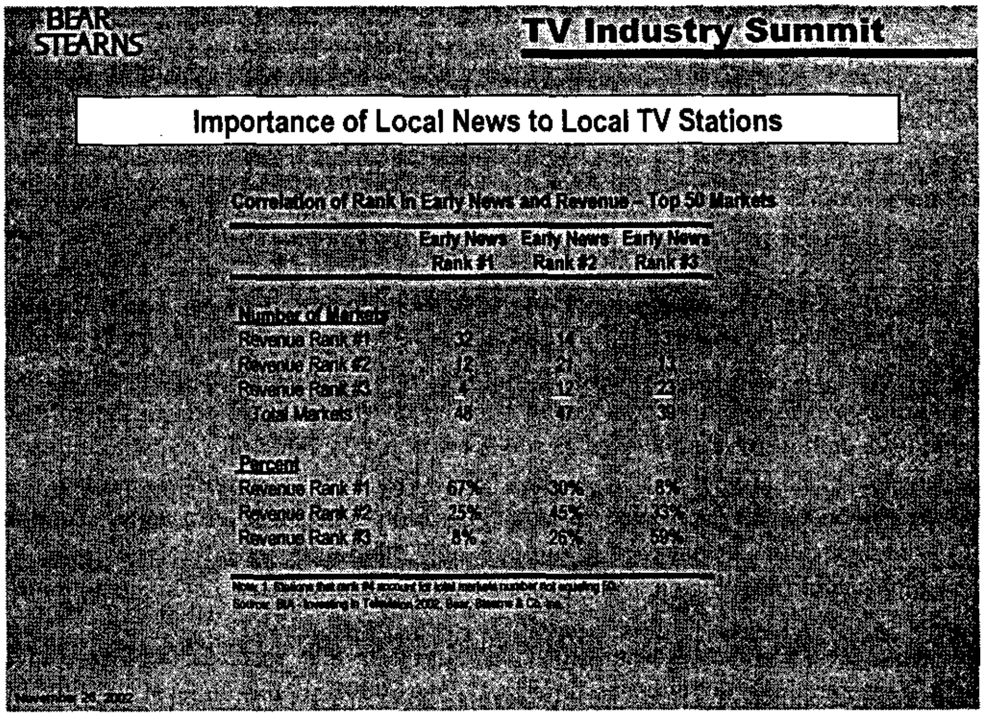
Jeff Smulyan: But the reality is, just on the cable and satellite side, we have people collecting *$60* billion a year from our customers that are primarily starting there to listen — to watch us — that it’s going to third parties. And that’s the heart of all of our problems. That’s why the networks want more inventory, that’s why they can’t afford sports, that’s why a syndication product goes out; that’s why we’re competing for advertising with cable networks that are cross-subsidized. It’s the heart of the whole problem. And we, as an industry, haven’t done anything about it.

Victor Miller: Let’s talk about . . . which days parts do you guys think are most at risk? And which are most secure? Gary?

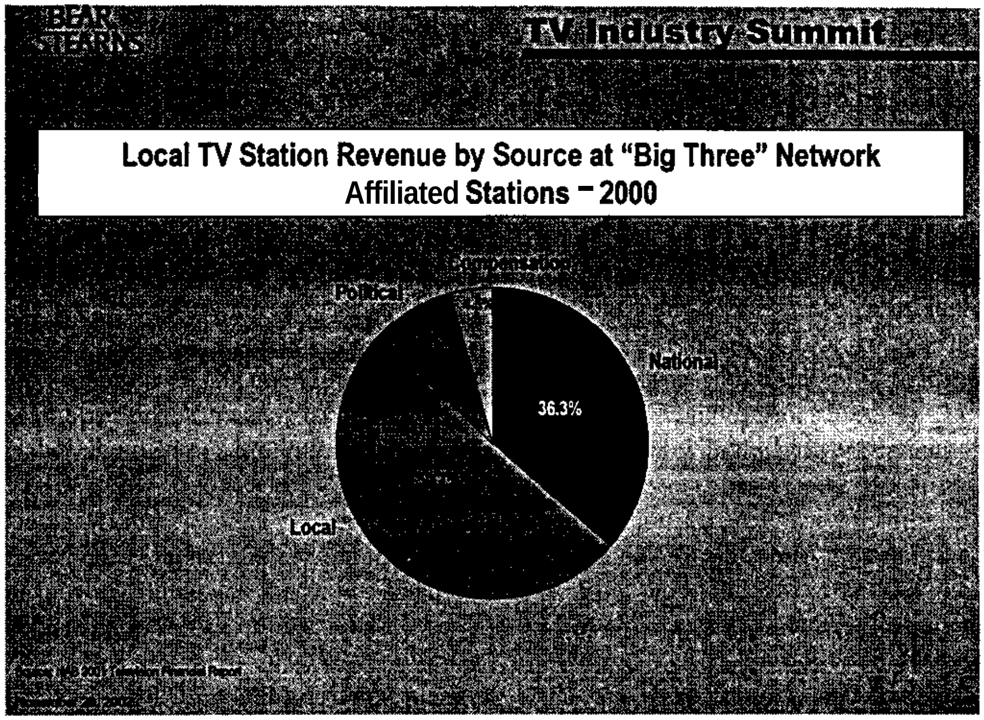
Gary Chapman: Well, I’d say, again, least risk would be what we control with our local news. That’s where our HUT levels have stayed up, that’s where our ratings have less deterioration and fragmentation. Most risk is daytime. I mean, the HUT levels have almost disappeared there. There’s no revenue there. It’s hard to supply programming and make it work.

Victor Miller: Do you agree, Bruce?

Bruce Baker: No, I think daytime is going through a transition period right now. And I think the networks and the local stations are going to have some discussions about that as the years unfold. As far as audience going away from local television, it appears to me that late fringe is kind of an ongoing challenge for us that we're going to have to deal with because we're not effectively programming that in every case. And the size of audience available to us is just not as big as we would like. It's getting pulled off into cable, and we're losing that opportunity there. So, that's one that I think we're going to immediately be facing. And it varies by station. I think it's a real time period where we're seeing some erosion. And I think the challenge for weekends is still there. What happens with weekend daytime is still a challenge depending on the station. And you have networks that program it effectively, and then you have programming that isn't effective. And the stations are challenged there.



Victor Miller: Just to show you again the early news and how it sets the tone for the whole station . . . you can see, here's the early news No. 1 rank in the market, No. 2 rank in the market. And instead of looking at the ratings of the whole day, we looked at the revenue rank in the marketplace. And you can see that 67% of the time, if you're the No. 1 ranked early news in the marketplace, you will be No. 1 in revenue for the entire day. If you're ranked No. 1, No. 2, 97% of the time you'll be the No. 1 revenue generator in the marketplace. So, the news product, which is the controllable element — most controllable element — of the business, you can see that this is why there's a lot of focus on this business.



Let's talk about where the revenue comes from — local, national, compensation, political. You can see the pie here — **51%** local, 36% national. Let's start with Jeff on this. How do the local stations stay competitive in national advertising? It's the most competitive form of advertising because you've got the cable networks, broadcast networks, syndicators . . . they have an up-front process, you don't. How do you stay relevant in the national marketplace?

Jeff Smulyan: I think national is very, very difficult. I think the great and significant opportunity that we've seen is an increase in local. I think national, again, you're now competing with all of the elements you talked about. You've now got 200 cable channels cross-subsidized that are able to price more effectively in some people's minds, and it makes it difficult. It doesn't mean that there isn't a place for it. But I think, from our standpoint, the greatest growth opportunity is local . . . against daily newspapers, which have gotten the lion's share of dollars and probably shouldn't get them based on the fact that they're losing readers in key demographics. So, if you ask me, the better opportunity would be local, no question.

Victor Miller: Anybody have a follow-up comment to that?

Kevin O'Brien: Yes, I think as the economy gets more and more competitive. . . as the economy gets to be more erratic, where you have some good months, some good quarters, and some good years and bad years, I think there's actually great news for us as local television stations in the national marketplace because we're so much more an efficient medium than cable, network, or, God forbid, barter cable or barter sales . . . because you can target certain markets. It always amazed me that United Airlines, which has lost millions of dollars, continues to spend huge amounts of money on the network, when they only have seven or eight major hubs where they do about 70% of their business. And they "squander" this money on buying network because the agency in Minneapolis thinks it's cool. I think that's one of our great strengths, and it's going to make our local medium more and more effective for national because people can target certain marketplaces and be way more efficient with their dollars and still get the same environment. In other words, if United Airlines feels good about buying high-rated spots, like ER, let them buy the 30-second spot in ER on a local basis. The viewer doesn't know, the viewer doesn't say, "oh, look, Agnes, these dummies bought the local break in a market."

Victor Miller: Right. Now, here's a theoretical question — I'll ask Bruce. Do you think we're ever going to have an up-front marketplace in the local TV business where the electronic data initiative that the Television Bureau of Advertising is trying to put together to take the paper trail out of the television business and the latency that you get . . . you're just getting paid on a paper trail business. Once we actually coordinate that, is it theoretically possible that we could have an up-front process in the local TV business?

Bruce Baker: That's very theoretical. And I challenge . . .

Victor Miller: Shall we move on then?

Bruce **Baker:** I'm challenged to think that the local advertisers are going to be able to orchestrate that because I think they're too fragmented. I think that really takes a concentration of agencies or businesses to really make that happen. In some of our markets, we have more annual business than we have in others, and that's because the market's a demand market. Orlando, for instance, sees a lot of placement going into the year versus a market like Pittsburgh, where it's spread out a little bit more. So, I think it's driven by the market more than it is going to be something that's been orchestrated by that.

Victor Miller: Gary, local TV operators often say they target local dollars because national dollars are more unpredictable. You can control the local marketplace. But, on the other hand, you can really view this as a sign of weakness because the local TV stations are having a lot of difficulty competing for national dollars. So, two things: first of all, do you believe that's true? And, secondly, doesn't that make us more reliant on a certain type of advertising — meaning local advertising? It reduces our balance, where we used to be a 50/50 business — you can see where we're heading right now. It's certainly not a 50/50. Doesn't that make us more reliant on a segment of that single revenue stream — meaning local?

Gary Chapman: Actually, our business is one-third national and two-thirds local.

Victor Miller: And that's why I asked you the question.

Gary Chapman: And one of the reasons why is we made a conscious effort. . . the problem with the national business, it hasn't really changed too much from when I was a national sales manager in 1972 in St. Louis. We're still selling spots and dots and it's very dependent on the ratings . . . simply the ratings. What we try to do on the local side is get our salespeople away from that way of thinking and try to train them into thinking more as marketing specialists. We do spend a half a million bucks a year with Craig Marshall and Marshall Marketing and do qualitative research. And so, we design questionnaires with that retailer and go into the field, and it's our late news viewer, our early news viewer, and it's his customer. And what does his credit card holder think about his business? What about quality of the service? We like to think that we can partner up with him to solve his marketing problems. We want to become a solution to his marketing — a marketing solution. In doing so, that changes the relationship with the advertiser. And it also takes you away from that 23-year-old spot buyer and into either the owner's office or the manager's office. And you start dealing on a different basis. And he views us as not just, to call up and we're going to do a six weeks spot buy here, but more of a partner in his business.

"It also takes you away from that 23-year-old spot buyer and into either the owner's office or the manager's office. And you start dealing on a different basis."

Bruce Baker: This is not a negative that 10%-15% of our business is business that we develop ourselves. This is, frankly, a result of our needing to reach out to these clients, these customers that actually can use television effectively. So, this is a positive. Part of what we all face is that we lose a certain percentage of our client base every year just due to the natural transition of things. So this is a by-product of survival, it's also a by-product of, frankly, now having the opportunity to take the benefits of television out to the marketplace.

Victor Miller: Jeff, follow?

Jeff Smulyan: Yes, these marketing partnerships, this is what made the radio industry the darling of the media world, by developing 80% of our business local and getting in past the 23-year-old media buyers and building on those relationships. And that's where our growth has been. If you look at our growth in radio, it's all been local dollars built on those relationships basically with retailers at the expense of daily newspapers.

"If you look at our growth in radio, it's all been local dollars built on those relationships basically with retailers at the expense of daily newspapers."

Victor Miller: I was just about to question Bruce, actually — that punching bag often is newspapers — there's a big opportunity for local television. The last time I checked, you owned one of each in Atlanta. Maybe you can talk about how you look at the opportunity against the newspaper business? Anybody else can jump in after that.

Bruce Baker: Well, without entering into some. . .

Victor Miller: . . . inter-company squabble?

Bruce Baker: Yes. I think I would say to you that there are opportunities in newspaper partnerships. The newspaper business is changing quite a bit, and they need, frankly, to find partnerships in the marketplace because they're losing a lot of business in classified areas, etc. Their costs are going up in terms of print costs. And so, I think there's a need they have now to find ways to, frankly, support their business and keep their subscriptions up. The problem with that is that it's still a newspaper. And we have the Internet element that's out there, that's in the background, that I think both the newspaper and television are going to fight with or find a partnership with. So, I really think that's going to be a bit of a battleground as we get into relationships with newspapers.

Victor Miller: Kevin, do you want to follow up?

"I think newspaper is trying Like hell to be a better medium. I just think they're strapped by the engineering of it all."

Kevin O'Brien: I had the pleasure of working at Cox for 15 years, and **one** of the reasons I think they're the best-run company in the business is, in that company, if **you're** in the newspaper division and another guy's in radio and another woman's in television, it's the best person wins. I mean, they do not say, you will back off this account because it's like the P&G of broadcasting. They might have ten brands in the market, but whoever is the best salesperson or woman or man that wins that battle — they're the **ones** that get **the** white hat at Cox. **And** I think that's why it's such a great company. **But** in talking about newspapers, it all comes back to the engineering. I used to sit in the meetings and look at the newspaper guy and say, "god, you must be scared to death because his papers are in these machines, some of them work, and some of them don't. Kids are throwing them on the lawn." I mean, that's a tough business. I look at the cable guy or cable woman and say, "isn't she lucky?" Now, there is a business where you can dominate because you have the wire — you indeed are the gatekeeper. And then, of course, television, again, the engineering wins out. It's a ubiquitous medium; it gets into everybody's home. So, I think newspaper is trying like hell to be a better medium. I just think they're strapped by the engineering of it all.

Victor Miller: Jeff, do you have a follow-up?

Jeff Smulyan: Well, again, nobody loves to read newspapers **more** than I do. **But** I just think that if you look at demographics, the younger people that most of our advertisers are looking for aren't reading papers any more. That's just a reality. It may not be the best news for the democracy, but the reality is that **18-** to 34-year-olds and **18-** to 49-year-olds, where most advertisers target and where most of those dollars are allocated, just aren't reading daily newspapers any more.

Victor Miller: Let's talk about the political pie here. In **2000,** the average big **three** player, about ***8%*** of its revenue is political. **Is** that about a fair level for this year, a little bit more, a little bit less? **Or** what?

Bruce Baker: Stronger news stations are going to do better than that.

Victor Miller: Will do better than that in terms of percentage?

Bruce Baker: Right, yes

Gary Chapman: Also, it depends what market you're **in.**

Kevin O'Brien: **You** have a lot of issue advertising.

Gary Chapman: Some markets have more, some have less.

Victor Miller: Does it make it confusing to figure out what your core business really looks like when you have this heavy political advertising coming in and out of the business?

Gary Chapman: We don't look at it that way. In fact, we kind of look at it that this is kind of a bonus. And you're going to have a race sometime, maybe this year, maybe next year, but we don't . . . we really don't plan on it, so to speak. We know it's going to be there. Obviously, we want to secure as much of it as we can, and because we have a lot of pretty good news stations, we're able to do that. But our main emphasis, again, will be on the local sector. And if political comes in, fine, and if it doesn't, well, it just doesn't.

Kevin O'Brien: I think having political is a good thing for our industry from the standpoint of management because it forces you to be a better manager. You really have to anticipate it; you have to budget for it correctly. You've got to figure out a really good excuse for the chairman the next year when you're down 12%. when you have to talk about your core business being up. I mean, it really forces you to think about — a lot about — your business. And I think it also forces you to see who your friends are and who are not. And you've got to be really careful. We had so much political, as an example, in Saginaw, Michigan, that we had to start blowing out a lot of local accounts because we're under this ridiculous campaign reform act that forces us as a medium — again, we laid down on this one — we have to give the lowest unit charge. I don't think the newspapers really get into that much. And so, you have to give access, you have to give the lowest unit charge. So, political is a blessing and a curse. But, overall, I'd rather have it than not have it.

Victor Miller: Any concerns with post-2000 — McCain-Feingold Bill at all? Jeff?

"When you absolutely, positively have to have a result, you don't go to outdoor, you don't even go to radio, you don't go to newspapers."

Jeff Smulyan: No, not really. I think because of all the challenges, and now it looks like the parties are figuring out ways to just funnel money to the local committees. The thing I love about political is it says the one category of advertiser that absolutely has to have results on a given day spends all of their money on local television stations. When you absolutely, positively have to have a result, you don't go to outdoor, you don't even go to radio, you don't go to newspapers. You spend most of your money in the local television stations. And the next day, if your product sold.

Victor Miller: The other part of our pie here is the network comp. Are we assuming that this is a level of 4.5% in 2000? Are we assuming that within five years or so, that little slice will be much smaller than that or completely disappear? Is that a fair statement?

Kevin O'Brien: I think a lot depends upon what happens down in Jacksonville, myself, with the CBS situation there. I think that's a real test market from my way of thinking.

Victor Miller: Go ahead, tell us what happened there?

"There seems to be a lack of understanding and partnership among the entities — the affiliates and the networks."

Kevin O'Brien: Well, I mean, there was a situation where — and I have to stand up and say I think Alan Frank is a great broadcaster, and I think what he did was the right thing. He made a business decision that was tough, and he decided that he was not going to keep his affiliation if he didn't get the proper respect and attention and compensation from his network. And I don't think CBS was happy about losing his station, but I think in a year's time, I'd like to see how well CBS does on the UHF station [ultra-high frequency station, or channels 14-69, which generally are able to reach fewer homes over the air, given the relatively disadvantaged propagation of its signal relative to VHF stations] there, how well Alan's station does as a big news VHF [very-high frequency station, or channels 2-13], and then I'd like to calculate

"The Fox network is a hell of a lot stronger in San Francisco on Channel 2, a huge news operation, than it is on a station without a news operation."

how much money the network actually lost on that deal by their network salesmen having to go out and sell significantly lower ratings in a major market. So, I'm not so sure that this compensation is going to get smaller. What troubles me, I think, is that there seems to be a lack of understanding and partnership among the entities — the affiliates and the networks. It just seems to be getting more and more difficult and more contentious as we go along. And, again, there have been lots of examples where networks have gone out and tried to put local stations on a cable system and not have the over-the-air delivery system, and they've been dismal failures. Because, in effect, the Fox network is an example. I see my dear friend Tony [Vinciquerra, president and CEO of Fox Networks Group] here. The Fox network is a hell of a lot stronger in San Francisco on Channel 2, a huge news operation, than it is on a station without a news operation. I mean, that can't be lost on Tony or anybody else at Fox. So, the quality and the impact of the station has a hell of a lot to do with the network ratings.

Victor Miller: We feel it's very, very important at this juncture for the two parties to start finding common ground because when we look at the pressures on the businesses, there are the exact same pressures from both the networks and the affiliate case. Jeff?

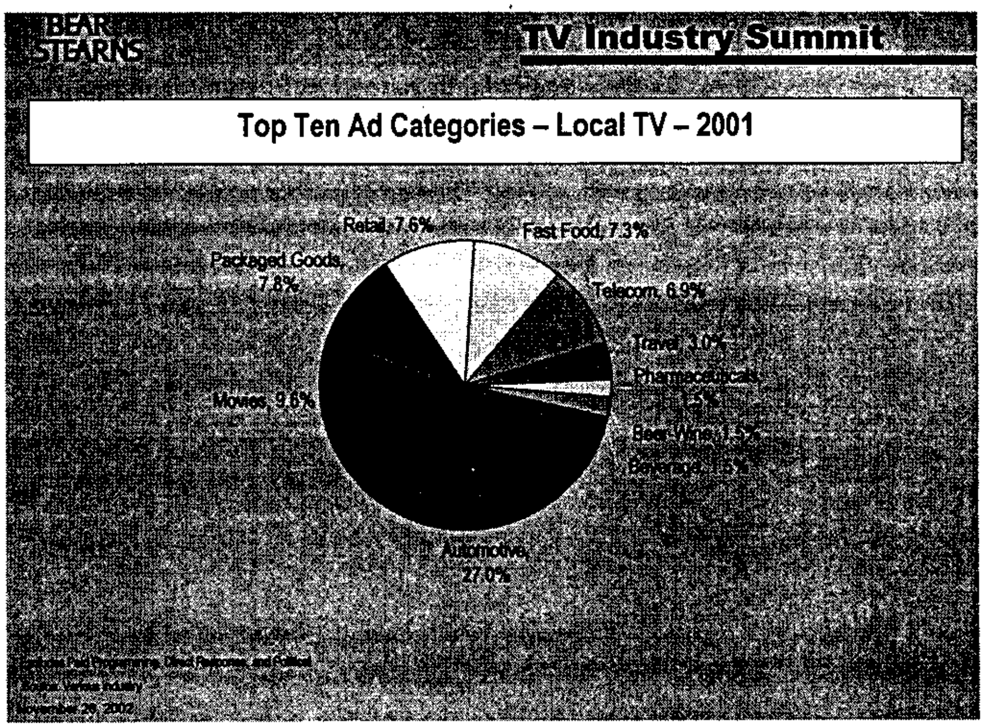
"We are both married to the terrestrial system. It's a system that makes a lot of sense for a lot of different reasons. And I think both parties have problems of the same making."

Jeff Smulyan: I could not agree more. We [the broadcast networks and the local affiliates] are both married to the terrestrial system. It's a system that makes a lot of sense for a lot of different reasons. And I think both parties have problems of the same making. The costs of the network are going up, fragmentation of the national dollars, cost of stations are going up . . . fragmentation of dollars. And, the problem is, the first reaction is always to shoot at your partner. I need more comp; the network needs to get back more inventory. The reality is, that's not the heart of the problem. And it's time we start focusing on the reason for the challenge to the business model to both sides.

Victor Miller: And I believe we're going to get into that in just a couple of minutes. I can feel it coming, Jeff. Here's a subtle question. Your national rep firms, they sell 34% of your business? Maybe more for you other guys. When there's a lot of stress in the marketplace like there was in 2001 and they are making adjustments, how does that affect your business? Anybody?

Gary Chapman: Well, obviously, if they're closing offices and if they are consolidating. . . fewer people, more stations to a list. . . it puts more pressure on the national sales manager to make certain that his avails are out there — that he is, in fact, in the face of the buyer and that he's going to get his fair share. So, it actually puts a little more pressure back on the station to see that they get their entitlement in terms of the revenue sharing . . . and to share revenue equal to or more to their audience share. Obviously, there's got to be some more consolidation because the industry still is doing business kind of like we did 30 years ago. We do need to finish the electronic invoicing. We do need to be able to move it into a more electronic transaction business as we move forward. And that would, of course, increase flexibility, decrease cost at the agency level and at the rep level, and make it a more friendly transaction for the advertiser.

Bruce Baker: I would add that in 2001, the smaller markets felt it in a different way than the larger markets. The larger saw a decline in billings; the smaller markets saw, frankly, important life blood, in terms of billings going away. I would say to you that the stations that are better at local, better at developing local business, are in more control of what their inventory pricing is. But in 2001, your cost per points are down on the national business because it's driven by availabilities and share of market. So that even in **a** good market, the guy who's on the lower end of the ratings is going to have, frankly, a more difficult time than the guy that's at the top of the food chain.



Victor Miller: Here's the top ten ad categories. Automotive, 27% of the business – anybody concerned about that level? Bruce?

> "I think it's **just** a relationship that, fortunately, is not going **to go** away because we pfovide a very good opportunity for them to reach the marketplace."

Bruce Baker: Yes, kind of funny. Kevin was with us when we did this. About ten years ago, we were real preoccupied with that. And we said, "we're going to go out there and change this." So we started a number of initiatives, and I think in the three years of our initiative to become less automotive dependent, we became more dependent! If we want to call it a dependency. I just think it's just a relationship [between local TV stations and the auto industry] that, fortunately, is not going to go away because we provide a very good opportunity for them to reach the marketplace. And, quite frankly, I think stations are becoming much more sophisticated in building relationships with the individual dealers beyond dealer groups and all of this. So, frankly, I see this **as** an ongoing positive relationship and it comes down from the top because I think it's with the networks **as** well **as** with the local stations.

Kevin O'Brien: Their business matches up perfectly with the type of business that we have. The automobile business and local television is a symbiotic relationship that's very powerful and successful because the car dealer, the type of business they have, they have to constantly be moving iron off the floor. They have to constantly be turning over inventory, and, most importantly, they have to sell a lot of used cars, and they've got to get a lot of people to buy a new car so they can get the money on the service side. And local television works . . . because of its nature, of its ubiquitous nature, the powerfulness of it, the localism of it, people react positively to it. And I'm sort of surprised that it's that low. I think in the years ahead . . . the car dealers I talked to, they're going to buy less and less newspaper and more and more TV because TV works for them. All that newspaper does is bring in the person that's going to buy the Honda for *$5* more no matter what — that's what newspaper does. Television gets the guy that says, "you know what, honey? I've got to have to have that Escalade. That looks fabulous. I'm going down and buy it. Screw it, I'm getting no money down." So, I think it's wonderful relationship; it's very powerful because we match up well.

Bruce Baker: But Kevin, don't you think some of the migration of local sports on to cable is going to make us a little vulnerable with some of the automotive business?

Kevin O'Brien: Well, not really, I mean, I personally think that sports are going to start migrating back to local television. I mean, I just can't see how a buyer, local or national, can say, I'm going to buy the Giants telecasts on the cable system in my market when the cable system in my market — when the cable game does about a three rating, and the game on over the air would do a 12. I mean, I think the economics are eventually going to catch up to the sports teams. I don't worry too much about that.

Victor Miller: Well, Jeff used to own a baseball team . . .

Jeff Smulyan: I don't know much about the economics of baseball, and I've proven that!

Victor Miller: That's why you don't own the team anymore.

Kevin O'Brien: It's the worst business in the world, I'll tell you that right now.

Jeff Smulyan: That I agree with. But I can tell you one thing. With all due respect, the sports owners, whether they're getting three ratings or 12 ratings, the reality is they've got a pitcher coming out of the bullpen who wants $9 million a year. And whoever pays him more is going to always win their hearts; that's the first rule of sports. And the reality is the cable guys are paying them more money; which the last time I looked — because, again, gee, they've got a second revenue stream, they're going to pay more money. Kevin, I would love to see it migrate back — it ain't comin' back, not until we have the same money in our pocket.

Kevin O'Brien: Remember, I was involved with the Giants baseball team for many, many years as the owner representative of Cox. And I can tell you, it is a terrible business. I mean, there is no — it is not a business. It's a fool's business. I mean, but Jeff got burned. The guys did go into it, they — listen, I wish I could have the money to buy a baseball team. I don't feel that bad for Jeff!

Victor Miller: All right, let's talk about the two — auto and retail — almost 30 — by the way, the reason you're seeing this number look low is that this is a blend of WB-UPN-Fox and the big three; the big three probably north of 30, and UPN, WB, and Fox probably around 20% auto. Anyway, almost a third of the local TV business comes from retail and automotive advertising, maybe even more, for the big three.

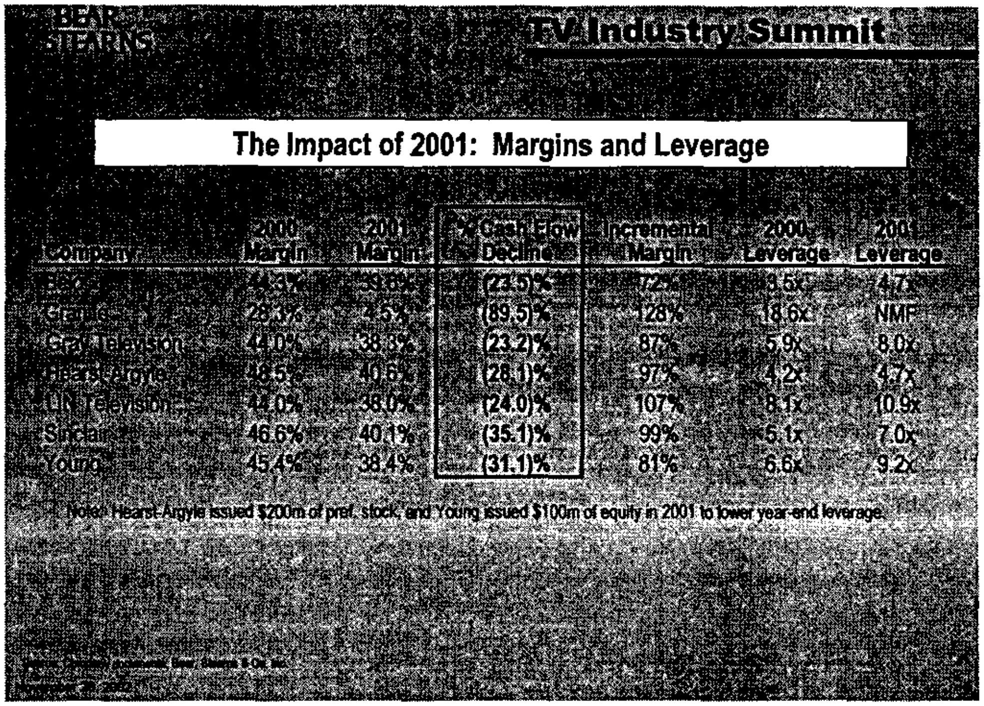
When you guys see consumer sentiment drop to a nine-year low or whatever it was recently . . . and you see some of the weakening economic indicators, you would at first blush say, this is a very vulnerable position for us, since this is a third of our revenue. On the other hand, TV business has held together, as Chris Rohrs said, surprisingly well; it's really been a TV phenomenon in the recovery. How concerned are you about the indices that you read? And then, do you think this is a flight to safety? Why has television done better? Or is it just because last year was so gosh-darned bad. Remember, the two-year growth rate for the TV business is still down. And we were down 20% third quarter last year. As an industry, we were only hack 16% this year. So we're still down 4% in two years.

Bruce Baker: But 1 was much more concerned when all of the brands were consolidating, and you didn't have as many competitors. We've gone through a pretty tough period. It's kind of — we kind of missed that in all of what happened in 2001 and what happened to us. We went through that period where we had that consolidation, and they weren't competing with each other as much. That's settled out, and now we're getting back to building brands, and, frankly, all of a sudden, everybody's worried about market share. And that really plays to television, and it plays to what we have as strength and what we offer to them.

Victor Miller: And you're seeing that come back in the packaged goods category? It seems to be very competitive again.

"Every time somebody ventures away from spot television, they end up crawling back to it."

Kevin O'Brien: That's exactly right. And I also think if you take 1998, 1999, and 2000 out of the equation . . . if you take a look at a bar graph from 1998 to 2002 and take out those three particular years, the industry had a pretty solid consistent growth. We let ourselves fall in the trap of comparing it to the prior year, the prior two years. From 1998 to 2000, you had politicians, you had political, and you had this incredible dot-com craze, which really pumped everything way out of proportion. And we let our competitors' medium get into that — oh, television is down. Television has never really been down, it just had just an unbelievable explosion in revenue from categories that nobody expected it to be that it just became an extremely erratic demand curve. And I think this business is on solid ground. The people that have gotten out of local television — there's lots of times where you have some hot shot MBA guy who comes into McDonald's and says, "well, we're not going to spend any more money with the local people; we're going to spend it all on network." Remember that happened about four or five years ago with McDonald's? Well, that was a disaster for McDonald's. Its shares dropped incredibly in every single market. And it's back into local TV stronger than ever because the television stations are able to offer value-added to an account like McDonald's that the networks could never — or a cable company can never offer. And I think that's one of the great strengths. Every time somebody ventures away from spot television, they end up crawling back to it.



Company	2000 Margin	2001 Margin	% Cash Flow Decline	Incremental Margin	2000 Leverage	2001 Leverage
Belo	44.3%	[illegible]	(23.5)%	72%	3.5x	4.7x
Granite	28.1%	4.5%	(89.5)%	128%	18.6x	NMF
Gray Television	44.0%	38.3%	(23.2)%	87%	5.9x	8.0x
Hearst-Argyle	48.5%	40.6%	(28.1)%	97%	4.2x	4.7x
LIN Television	44.0%	38.0%	(24.0)%	107%	8.1x	10.9x
Sinclair	46.6%	40.1%	(35.1)%	99%	5.1x	7.0x
Young	45.4%	38.4%	(31.1)%	81%	6.6x	9.2x

Note: Hearst-Argyle issued $200m of pref. stock, and Young issued $100m of equity in 2001 to lower year-end leverage.

Victor Miller: Let's talk a little bit about the risk of an all-out model. I'm going to ask you the first question, Jeff. If you look at 2000 margins versus 2001 margins, and you look at the cash flow and declines that these companies suffered in one year — when you saw, for example, LIN's pro forma cash flow down 24%, Young down 31%, Sinclair down 35%, Belo down **23%** — with the shortfall they had on the revenue line. What you'll see there is the incremental margin, which is really my point here, is that we've kind of wrung the costs out of this business, it would appear, to a certain extent, because every dollar that was lost on the top line — you can see in certain cases, **$0.99** of every $1.00, $1.07 of every $1.00, **$1.28** of every $1.00. Actually, if you came down to the EEITDA line, and you can see the impact that **2001** had on leverage — very significant changes in leverage. So, I guess the question is, what impact did **2001** have on your business? The way you conduct your business? How did your company respond to 2001? Is it fair to say that the cost side of the business is kind ***of*** played out at this point?

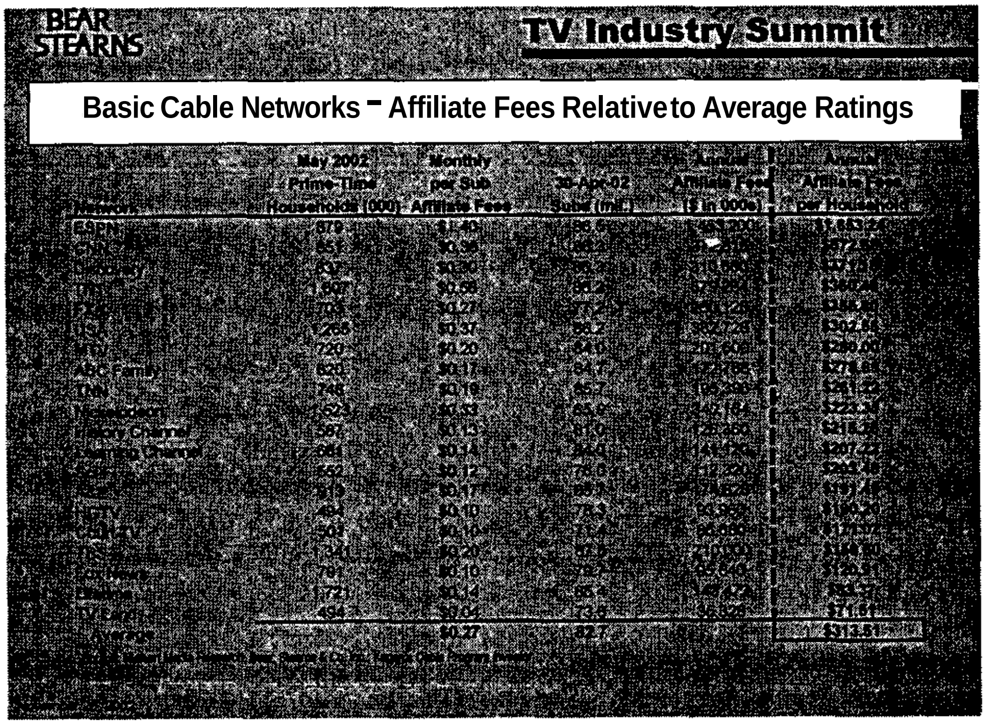
Gary Chapman: Well, in essence, **2001** was a wake-up call. Obviously, the chart shows what happened, as we dropped off on the revenue side. What it caused **us** to do is to say, okay, how can we do business smarter and better? And, quite frankly, it led us to putting Parker Vision in some of our TV stations, robotics in other stations — clustering. We were now running seven stations out of Indianapolis **. . .** five out of Springfield. Reduced head count by 10%, **200** people. Reduced programming cost, too. So, we attacked basically the expense side with technology **. . .** using technology to bring down our cost. So, in essence, what some of the small-market television stations, like in Fort Wayne, might look like is a news department and a sales department. And the rest of that master control will be in Indianapolis **. . .** the same thing for Lafayette.

Victor Miller: Bruce? What did **you** see?

Bruce Baker: I think we're dealing with the growing cost of keeping strong news operations in place — it's very important that we do that and that we not sacrifice that. And that, to me, means, for our company, local news operations. That builds in a challenge for us because that cost base does not look like it's going to go down because you have to have reporters, you have to have editors, etc. That cost is fixed into what you want to do. Then it's a question of how many people you need to put into place to make that happen. Right now, we're going through a period where technology is giving us opportunities to streamline some of the back room operations. We probably have, it looks to me, another two years to work through some of that opportunity — depending on where some of these companies go. The Parker Vision has — Parker Vision has an answer . . . to me, it's not there in the total way. And'so, I think we still need some competition there, and we need some evolution there.

Victor Miller: Parker Vision, for everyone, is a central casting concept and being able to run the technical engineering side — production side — from one central location for several different stations?

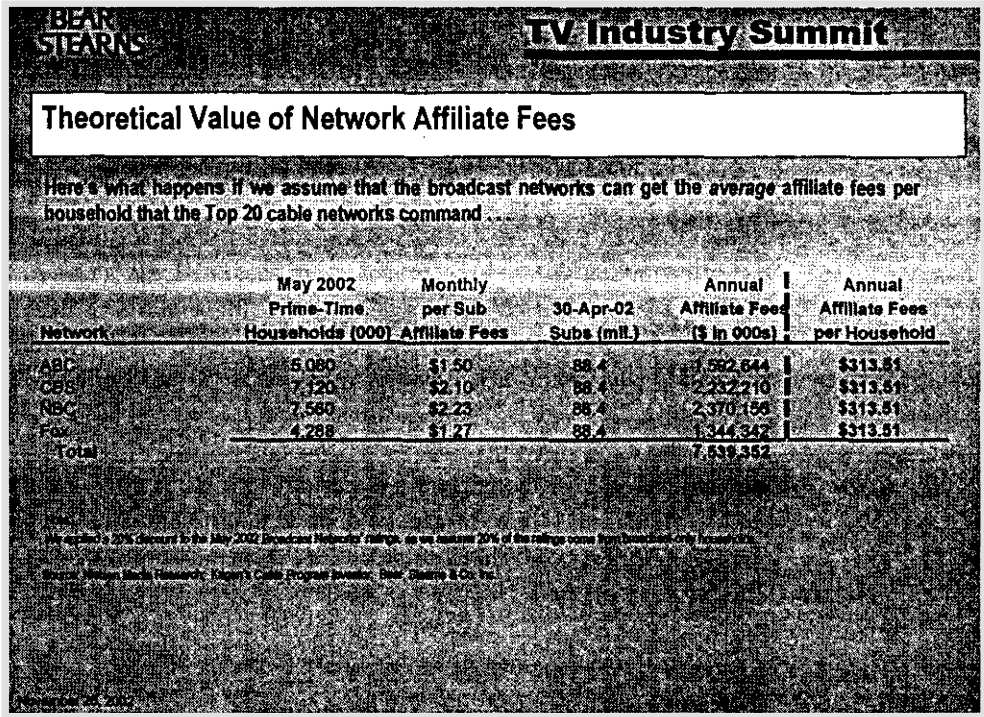
Gary Chapman: No, that would be more your clustering concept. Parker Vision is technology that really replaces the audio man, the cameraman. You might have one floor person. You end up with basically three people producing news. It's a computerized system that replaces people and equipment. And it's not right for every market, obviously. And in other markets you put robotics in, which means . . . the cameras are robotic . . . you keep the audio man, maybe even TD and the director. But each station is different, and there is no one answer for every television station. What's right for Fort Wayne may not be right for Indianapolis. So, obviously, the concept is to create efficiencies. It's just that simple.



Basic Cable Networks – Affiliate Fees Relative to Average Ratings

Network	May 2002 Prime-Time Households (000)	Monthly per Sub Affiliate Fees	30-Apr-02 Subs (mil.)	Annual Affiliate Fees ($ in 000s)	Annual Affiliate Fees per Household
ESPN	879	$1.40	[illegible]	[illegible]	[illegible]
CNN	851	$0.36	[illegible]	[illegible]	[illegible]
Discovery	837	$0.30	[illegible]	[illegible]	[illegible]
TNT	1,807	$0.58	[illegible]	[illegible]	[illegible]
[illegible]	703	$0.27	[illegible]	[illegible]	[illegible]
USA	1,265	$0.37	[illegible]	[illegible]	[illegible]
MTV	720	$0.20	[illegible]	[illegible]	$280.00
ABC Family	620	$0.17	[illegible]	[illegible]	[illegible]
TNN	746	$0.19	[illegible]	[illegible]	[illegible]
Nickelodeon	1,523	$0.33	[illegible]	[illegible]	[illegible]
History Channel	567	$0.13	[illegible]	[illegible]	[illegible]
Learning Channel	681	$0.14	[illegible]	[illegible]	[illegible]
[illegible]	652	$0.12	[illegible]	[illegible]	[illegible]
[illegible]	915	$0.17	[illegible]	[illegible]	[illegible]
[illegible]	494	$0.10	[illegible]	[illegible]	[illegible]
[illegible]	501	$0.10	[illegible]	[illegible]	[illegible]
[illegible]	1,341	$0.20	[illegible]	[illegible]	[illegible]
[illegible]	791	$0.10	[illegible]	[illegible]	[illegible]
Lifetime	1,721	$0.14	[illegible]	[illegible]	[illegible]
TV Land	494	$0.04	[illegible]	[illegible]	[illegible]
Average		$0.27	82.7		$313.51

Victor Miller: Let's talk about . . . I appreciate, Jeff, you waiting for this moment to talk about this because I know it's near and dear to your heart. This is the basic cable networks' affiliate fees. And you can see, on average, it's about **$0.27** per sub per month. You have about **82** million average subs. And there's the annual affiliate fees that when you add up all of these different numbers, the average is about **$265** million? That would mean that the annual affiliate fees, per household, are about $313.



Network	May 2002 Prime-Time Households (000)	Monthly per Sub Affiliate Fees	30-Apr-02 Subs (mil.)	Annual Affiliate Fees ($ in 000s)	Annual Affiliate Fees per Household
ABC	5,080	$1.50	88.4	1,592,644	$313.51
CBS	7,120	$2.10	88.4	2,232,210	$313.51
NBC	7,560	$2.23	88.4	2,370,156	$313.51
Fox	4,288	$1.27	88.4	1,344,342	$313.51
Total				7,539,352	

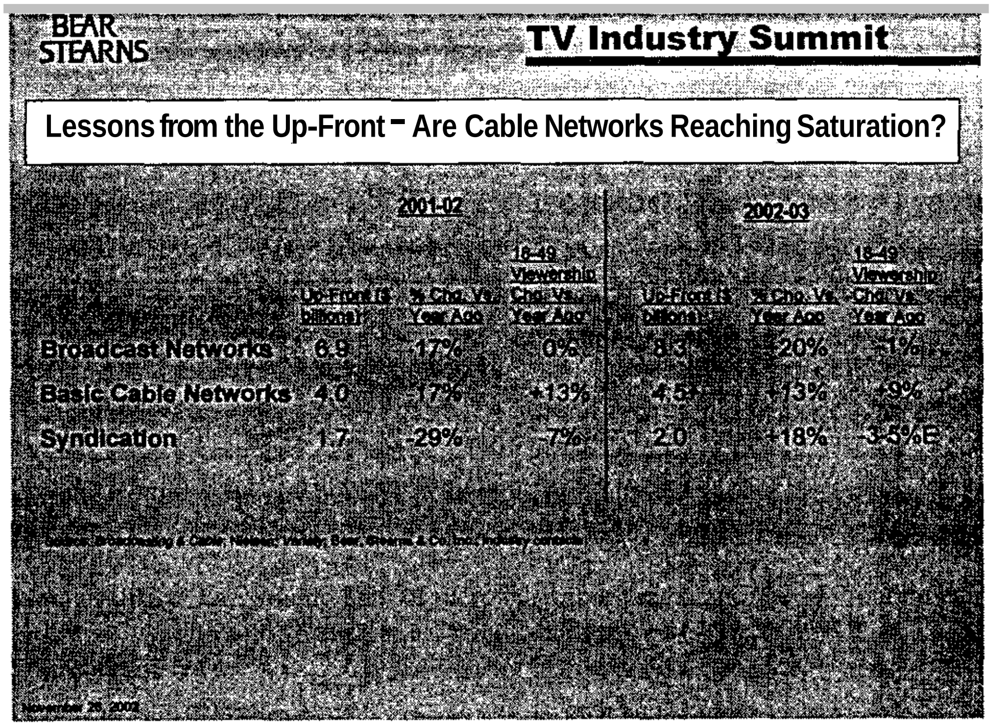
And you look at the theoretical value of a network affiliate on that basis . . . and what we did is we actually reduced the current May **2002** prime-time numbers to look at homes with cable-only homes. So, we reduced all these numbers because there's less viewership of the networks and cable-only homes. And we said, all right, let's apply based on the rating that there would be the affiliate fee based on the average rating that the other. . . the cable networks do. We'll assume that you're in 88 million cable homes and DVS homes. That would assume that, on the same basis of $313 a year, which would be **$7.5** billion of affiliate fees for the television business. And, right now, we get closer to a goose egg. Tell us about the second revenue stream?

"**Do** you think they realize that Animal Planet is getting **80%** of that money and CBS is getting none?"

Jeff Smulyan: It's just stark-raving insanity . . . it really is. There's no other way to say it. We have allowed a cross-subsidization, and we have danced around the topic. We've talked about saving money. We could only save so much, and we're all employing technology, and an economic downturn forces all of us to wring those costs out. But the reality is, we have cross-subsidized everybody on this page and more. The average American pays a third of their cable or satellite bill — by definition of the cable and satellite industry — toprogramming. So, that's about $20 billion a year that supposedly is going to programming fees. Now, not all of that comes back to programmers — and that's a whole another debate. But the reality is, if the average American is paying a third of their bill, do you think they realize that Animal Planet is getting 80% of that money and CBS is getting none? And the networks got lulled into that by saying, "well, we get an extra channel. We get an extra channel and it's worth it." I think the people in the network business would tell

> **"There are 230 channels. And most of those channels, if they had to exist in a marketplace, couldn't survive. There's nobody watching them, folks, but they still get paid."**

you that by getting a second channel and not getting paid for their original networks and their O&Os, and their affiliates not getting paid . . . they made an egregious mistake ten years *ago* . . . egregious. This industry made the worst mistake it could ever make. And by getting **$0.25** for F/X or ESPN or what became MSNBC and not getting paid for their stations was one of the — in **an** analog world, when there were only 30 channels, everybody said, "well, gee, I get the 31st, isn't that great? And I'll get $0.25 for it.' There aren't 30 channels anymore. And god knows that John Malone knew it. There are 230 channels. And most of those channels, if they had to exist in a marketplace, couldn't survive. There's nobody watching them, folks, but they still get paid.



Victor Miller: Here's a question, just to follow up to Jeff s point. Given the results of the last two up-front markets, it seems **as** though the cable network business was starting to lag the network business. You can see the broadcast networks last year had about a 17% decline in dollars and were about even in terms **of** viewership. So it's a 17% disparity. Last year, the broadcast cable networks lost about 17% of their dollars, but their audience was actually up 13%. So, there's a 30% disparity. And the same thing has held true this year . . . where their viewing was up **9%** [for the cable networks] and cable **nets'** up-front revenues were only up 13%. . . networks' viewing down 1%. But the broadcast network **up-front** was up ***20%.*** Are we at a breakeven point, Bruce, where the networks may be saying, you know what? That incremental cable channel is just going to agitate an already overleveraged situation in inventory. There's too much cable inventory **as** it is. Adding another cable network doesn't make a lot of sense. It's about time we looked at getting paid for our O&Os. And could that be a way that the network affiliates and the O&Os could cooperate?

Bruce Baker: I don't think we should talk about cable by itself. I think we have to bring satellite into this conversation.

Victor Miller: Let's bring them in.

"I think the opportunity to get paid first has already been demonstrated to he in the satellite area."

Bruce Baker: I think the opportunity to get paid first has already been demonstrated to **be** in the satellite area. The worst thing that could happen is for there to be a single satellite distributor. As long **as** there are two competitors there, we've got competitors fighting to grow their market and fighting with cable to grow. If we can be a part of that business growing and competing with cable, then cable's going to have to respond to us because then they've got an external competitor, and we become a more important commodity. All of us in our markets are aware of the fact that now, all of a sudden, it's important to have local stations on the satellite system or on the cable system because it's the differentiating characteristic of that service. And if you don't have it, you're missing an important part of your relationship with a potential customer or an existing customer.

So, from my perspective, whatever has happened in terms of **our** cable relationship has happened. I don't know if we can retrace that by arbitrarily deciding we're going to be tougher with them because stations can't get together in a single market and compete. ***So,*** what we've got to do is hope that the people that determine this remember the importance of competition in this area — particularly in satellite — allow that business to compete and compete not only among the two satellite carriers, but also with cable. And I think the growth of satellite, which, to me, has been pretty significant, will compete with cable, and then our opportunities will grow. But whether or not we can force this to happen outside of that, I'm not sure. I don't **know** if we have an opportunity there.

"When the new aet was put into effeet, **and we could negotiate with the cable operators, nobody got any money on the local television. Isn't that strange that no one got any money?"**

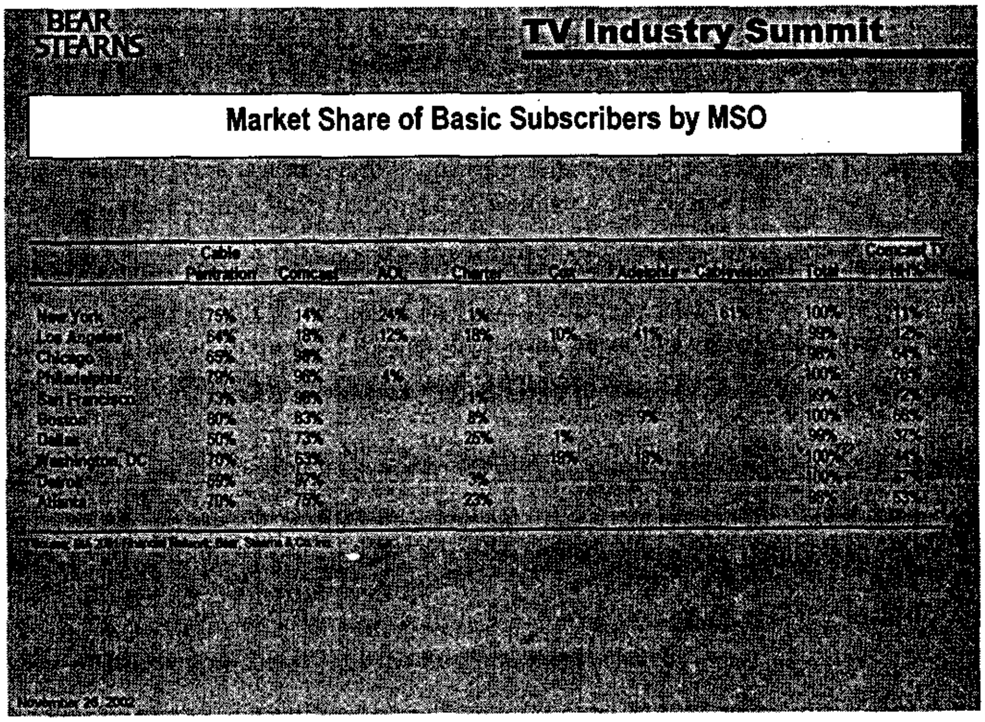
Kevin O'Brien: The problem with the relationship between local broadcasters and networks in cable is that the cable landscape was made years and years ago. I don't know where this industry would be if Eddie Fritz and Jim May hadn't come along. Because, before them, there was the cable act — the original cable act. I mean, we were asleep at the switch to local broadcasters. And I think that game is over. There's no question that **as** cable becomes more and more consolidated, they're operating **as** a cartel. There is no question when the retransmission . . . when the new act [the Cable Act of **1992,** which created retransmission consent or must-carry election rights for local TV stations with cable system operators] was put into effect, and we could negotiate with the cable operators, nobody got any money on the local television. **Isn't** that strange that no one got any money? Even the dominant, like, NBC O&Os? Because, in my opinion, the cable industry just got together **as** a cartel and said we're just not going to pay any money **as** a group.

Bruce Baker: For the press in the room, that was Kevin O'Brien that said cartel . . . I didn't participate in any of that conversation.

Kevin O'Brien: There's the proof **of** it right there — saying something that's truthful, and it is absolutely a fact. A fellow broadcaster criticizes me and makes sure my name's **spelled** right — that's the basic problem with this industry right there that's going on.

Victor Miler: All right, guys, break it up . . . I knew this panel was going to be good.

Gary Chapman: Let me just kind of review what happened **ten** years ago because, actually, I was joint chairman of the NAB at that time when we did re-trans. And we had **a** very strong advocate, Jay Kriegel at CBS, who got fired over this; he was the last network to hold **out,** by the way. And what really happened was the first company to break was ***ABC.*** And what they said is, okay, let's don't pass **for** ABC, but we want a buck on **ESPN,** and we want to clear it on 60 million subs. And, little by little, **MSNBC** got on that way . . . F/X got on that way . . . and they got paid because there was a thing called a favored nation. And the cable guy said, "I can't pay you, or I'd have to pay NBC or CBS or your competitors." And so, it was real quick **for** ABC to figure out, okay, we're not going to get paid for ABC, but we're going to get paid for ESPN. And so that's what happened. And I pulled off WAVY in Norfolk — it was off for seven days; and that was Cox, by the way, my friends with Cox. And I pulled off WOOD in Grand Rapids for two years . . . Cablevision on Kalamazoo . . . no Super Bowl. And, eventually, we came to an agreement to, quite frankly — they never paid us but they ended up . . . we created a thing called Local Weather Station, which was kind of like The Weather Channel but local, and we did get paid for that.



[illegible]	Cable Penetration	Comcast	AOL	Charter	Cox	Adelphia	Cablevision	Total	[illegible]
New York	75%	14%	24%	1%			61%	100%	[illegible]
Los Angeles	64%	18%	12%	18%	10%	41%		99%	[illegible]
Chicago	65%	98%						[illegible]	[illegible]
Philadelphia	79%	96%	4%					100%	[illegible]
San Francisco	73%	98%		1%				[illegible]	[illegible]
Boston	80%	83%		8%		9%		100%	[illegible]
Dallas	50%	73%		25%	1%			99%	[illegible]
Washington, DC	70%	63%		[illegible]	[illegible]	[illegible]		100%	[illegible]
Detroit	69%	97%		3%				100%	[illegible]
Atlanta	70%	76%		23%				[illegible]	[illegible]

Victor Miller: Let's **look** at Philadelphia, Comcast with ***96%*** of that marketplace now; Chicago at **98%** of that marketplace; San Francisco — Kevin, a little bit about this market — **98%.** So, it's nice to talk about that those theoretical second revenue streams, but how does that actually happen? Does it happen?

Jeff Smulyan: Of course it can happen. And I think the fact is we have loved fighting each other more than solving the problem. And of course it can happen. You're not dealing . . .

Victor Miller: The fighting is who? The cable or the . . . ?

'The reality is that nobody has as much power in the American communications systems as the over-the-air broadcasters."

Jeff Smulyan: The broadcasters and affiliates versus other affiliates and networks versus other networks. The reality is that nobody has as much power in the American communications systems as the over-the-air broadcasters. We have the power, and this isn't about killing cable or satellite. I marvel at how much better they manage this process than we did. When Eddie Hartenstein gets up and says, "you know, now that we can go take local stations . . . and it'll drive our subscriber base, and it went from ten million to 40 million over the next decade because we've solved our problem, we carry local stations. And, by the way, I'm going to charge people ***$6*** a month for their four local stations. And, by the way, local stations? Gee, we really can't pay you guys anything, maybe we'll give you a nickel." I mean, talk about chutzpah. And we've allowed it. One of my people sent me a bill from his cable company — they're charging him $13 for his local TV stations — actually itemized it, which I couldn't believe they would ever do. Talk about their gall. And whose fault is that, theirs or ours? It's ours — we've allowed it.

Victor Miller: Part of the thing that you get as a cable **MSO** when you do pay this affiliate fee is you do get **20%** of that cable network's inventory. Can you conceive a model where you get paid, but you also give up some of your local inventory . . . to make it a similar model?

Kevin O'Brien: Yes, but I don't think the broadcasters are looking for the same amount of dollars as a cable network that gets a decent audience and gives inventory. 1 mean, when you compare our audience to the audience of an HGTV, I mean, it's just ludicrous. I mean, there's no comparison to it. I don't think. . . I'm not looking for the same money that an ESPN would get or a TBS . . . I'm looking for something reasonable based upon the value that I bring ***to*** the cable system. Now, I understand Jeff s frustration because thank god for guys like Jeff Smulyan and people like that, that come from another medium and come into our business. Mel Karmazin. I mean, they're stunned at what they found when they came into the broadcasting industry. And I can understand their frustration because the radio business — if you can do it in radio, you can do it in anything. And I sense his frustration with television, and I know — and look at how successful he's been and how successful Mel's been because they came from a medium that was much tougher. It's a damned shame they weren't with us earlier. And I think there's going to come a day, by the way, where cable is going to **start** paying broadcasters a reasonable fee . . . and I think Bruce is absolutely right. I think the satellite influence has had a greater effect on cable than we think.

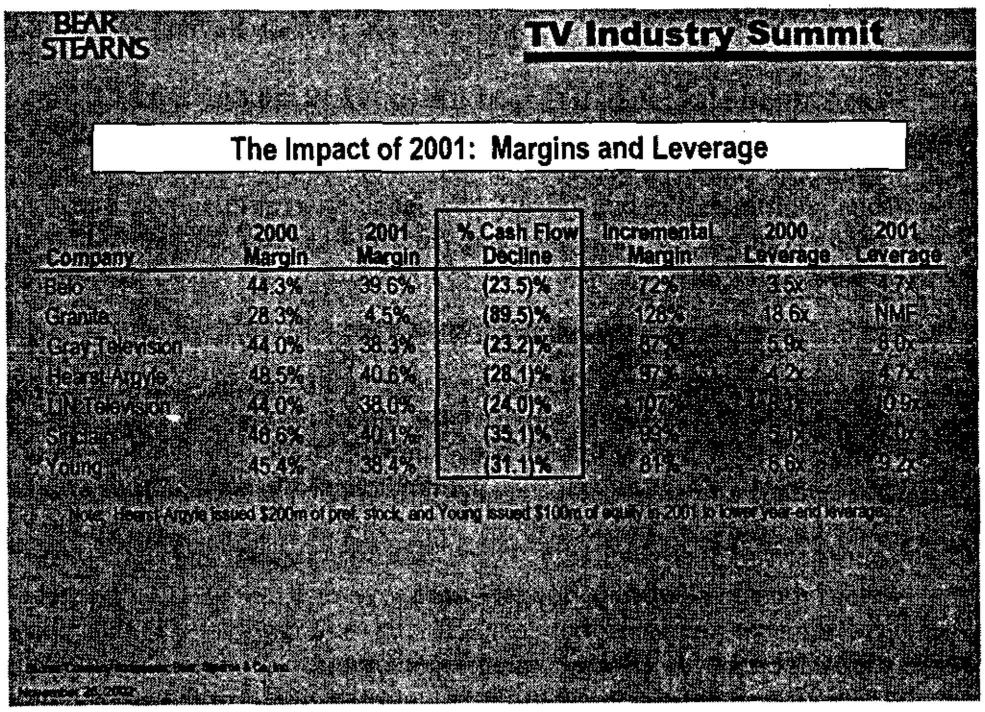
Bruce Baker: And I think if we could ever find a way to, in each of our local markets, accumulate the broadcasters so that we have the leverage to negotiate, we would have a lot of opportunity there. We just haven't had, so far, **or** taken the opportunity to find a legal way of doing it, and 1 know there's counsel in the room, so I'm not suggesting anything other than the fact that, competitively, you've had to slide up — we're one station in a market, maybe two if you have a duopoly and . . .

Jeff Smulyan: We don't know what to do with it. I would submit that we could probably pool all **of** our resources and create many distribution systems that would probably satisfy the needs of most of the American public . . . pooling spectrum and providing . . . and marrying with our networks and distributing all of the **Fox** affiliate product, cable product, or the ABC product. And I think that would go a long way, and nothing would make me happier than marketing a competitive product . . . and using my free must-carry **rights** that the cable industry . . . I give . . . to market a new competing product in the marketplace would be appealing.

Kevin O'Brien: Now, see, Victor, think of the absurdity of this. One company owns 99% of 80% of the viewership in the marketplace. The only way this is going to change is that beautiful "L" word called leverage — that's why they don't pay us — and we **try** to get paid and don't because they have all the leverage. When the de-reg comes in and these ridiculous duopoly rules are done away and these arbitrary voice rules are done away and Jeff Smulyan owns three stations in, let's say, Portland, Oregon, that's when this model is going to shift dramatically.

Jeff Smulyan: Kevin, I've got to say something. You want to talk about leverage — the American Broadcasting Company, with two stations in New York City and Houston, brought all of Time Warner Cable to its knees with two stations in two markets. We have the leverage; we don't use it. The leverage is there; it's whether it's at the FCC or in Congress or with the American public. We have it; we have never used it.

Victor Miller: If the industry suffered another **15%** decline like we saw in 2001, what could your company do to adapt?



The Impact of 2001: Margins and Leverage

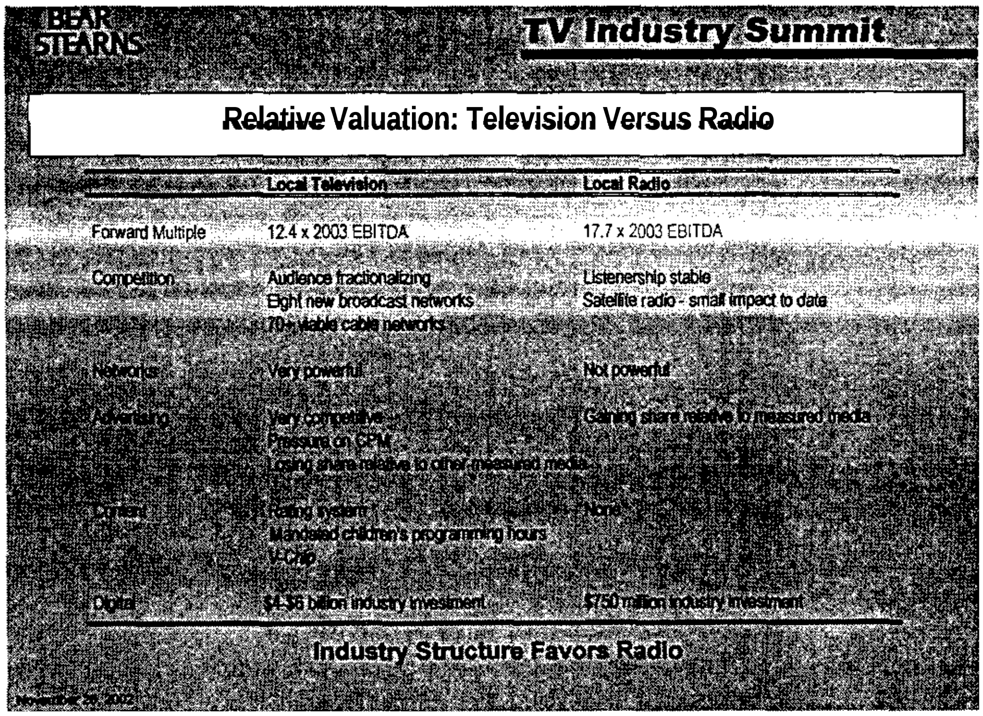
Company	2000 Margin	2001 Margin	% Cash Flow Decline	Incremental Margin	2000 Leverage	2001 Leverage
Belo	44.3%	39.6%	(23.5)%	72%	3.5x	4.7x
Granite	28.3%	4.5%	(89.5)%	128%	18.6x	NMF
Gray Television	44.0%	38.3%	(23.2)%	87%	5.9x	8.0x
Hearst-Argyle	48.5%	40.6%	(28.1)%	57%	4.2x	4.7x
LIN Television	44.0%	38.0%	(24.0)%	[illegible]	[illegible]	10.9x
Sinclair	46.6%	40.1%	(35.1)%	[illegible]	[illegible]	[illegible]
Young	45.4%	38.4%	(31.1)%	81%	6.6x	9.2x

Note: Hearst-Argyle issued $200m of pref. stock, and Young issued $100m of equity in 2001 to lower year-end leverage.

Kevin O'Brien: I want to get into this 2001. If you take a look at the decline from 2000 to 2001. If you took the dot-com business and political out of 2000, and you realize that in 2001, you had September 11, none of the loss of inventory in September 11 . . . the loss of inventory but the hundreds of millions of dollars that we had to spend to cover September 11 . . . that decline would not be anywhere near **as** dramatic as that is. I don't want people to think that that's an example of our industry getting weaker. I think if you eliminated September 11 . . . because 2001, as 1

> "I think the problem here is tbe dot-com business in **2000,** political, and then the September **11** hit **in 2001** — that's a very bad brew."

remember, going into the fourth quarter . . . I felt pretty good about the fourth quarter. I thought the fourth quarter might bail us out of 2001.1 think the problem here is the dot-com business in 2000, political, and then the September 11 hit in 2001 — that's a very bad brew. I think if you showed 1988 or 1997 and 2001, I think the margins would be a lot closer.



Victor Miller: Jeff, you do both of these businesses, radio and TV — I put this up earlier . . . local radio trading at a forward multiple of 17.7x, local TV at 12.4x. What's the difference?

> "The perception of investors is that radio is a model that will continue to take share and continue to grow. They don't have faith that we're going to grow in TV."

Jeff Smulyan: The difference is, the simple difference is that the perception of investors is that radio is a model that will continue to take share and continue to grow. The perception of investors is that they don't have faith that we're going to grow in TV. What's amazing to me is there is no more powerful medium in the U.S. or anywhere in the world than the local TV business. We have got to recognize that. We sell products, and we reach people every day. And the challenge is we've got to; the other problem is you've got somebody collecting $60 billion of fees standing between you and your audience; that's a little bit of a problem. It's going to be $100 billion in four years. When somebody collects $100 billion and stands between you and your customers, they're not going to allocate it to you — they don't and they haven't. . . and they won't.

Victor Miller: If you could, Gary, make any structural changes that you'd like to see in the TV business, given all that we've talked about in this session, revenue expense side . . . we weren't able to get into as much to the expense side as I had hoped, but, given that, what do you think would — again, five years out, what do you think is necessary from the structural standpoint?

"We have to have ownership rules that allow us to be able to combine, get greater penetration, and cluster the same way cable has been able to do that."

Gary Chapman: It's the ownership; it's all about the ownership. In terms of — let me give you an example — we did digital in Fort Wayne that cost **$3** million. We did digital in Indianapolis; it was about **$3** million. And that is about two months' cash flow in Indianapolis and two years' cash flow in Fort Wayne. Obviously, we need a change in the ownership structure. There's only four stations in Fort Wayne. But the need to be able to consolidate there **is** even greater because of the revenue, the lower revenue in the market. ***So,*** obviously, we have to have ownership rules that allow us to be able to combine, get greater penetration, and cluster the same way cable has been able to do that.

Bruce Baker: I think we've got to look for way to become more diverse in our revenue base, whether it's branching into Internet and using that, whether it's duopoly, opportunities in our market, LMA opportunities, or what have you. Even though a lot of that is advertising dependent, we've got to branch out in that area and grow Internet opportunity for those of **us** that can see that opportunity. And, hopefully, the satellite revenue will grow, and that will stay competitive, and cable will end up paying ***us.*** And **I** think we need to do whatever we can competitively to help that along and foster that competition in our marketplace.

Kevin O'Brien: I'd like to see a significant competitor to Nielsen; I'd like to have another research company giving us data. It makes me very nervous to have one **. . .** and I don't like what's going on in Boston. I'd love to have a good, solid company **as** a competitor to Nielsen.

Gary Chapman: Actually, monopolies are great **. . .** if it's yours!

Victor Miller: Well said.

"I'm either the dumbest human being who ever lived or somebody who believes that we're getting to a point where we are going to start using our power to make reasonable relationships with the American public and cable and satellite."

Jeff Smulyan: We can't consolidate enough to match the one chart, where you're going to have, basically, three or four companies controlling 80 million homes **as** either cable or satellite providers. And the reality is, if you can eliminate the network cap altogether and let the networks own 100% of the affiliates, and if you don't change the structure of this system, you have a problem. I **am** so optimistic; that's why we got into this business. I'm either the dumbest human being who ever lived **or** somebody who believes that we're getting to a point where we ***are*** going to start using our power to make reasonable relationships with the American public and cable and satellite.

Victor Miller: Questions from anybody? Mr. Ostroff?

Nat Ostroff: Thank you, Nat Ostroff from Sinclair Broadcast Group. The comments that have been made are very powerful and very stimulating, and I'm curious how the panel would react to the proposal that, while we may have given away our analog signals to cable, and cable wants to move their customers to the digital tier, we're going to be transmitting digital signals. How can we avoid making the same mistake and giving away our digital signals to cable? Why not withhold those until we can be paid for them?

Gary Chapman: Well, the reality is, we have a foot in two boats. Most **of our** companies have made major expenditures in digital. **I** don't know, we've got, I think,

$53 million . . . probably 95% built-out and probably a power bill of $1.5 million on digital. And no advertisers . . . no advertisers. And, obviously, we need to be able to get our signal to the American public. And there are two gatekeepers there. One is there's not enough sets out there. In the American public, very few sets have been sold; very few sets have been made. And the other, as you know, is simply that cable is the gatekeeper. and we have not been able to do that. Somehow, we need to, one, improve the standard, as you know. I think that's one of our major issues as an industry, is the standard does have to be improved. Two, we have to be able to get through the gatekeeper. Three, we have to be able to get penetration of sets in the American household. We, as an industry, I think have done our part. Unfortunately, the other industries that must participate in making this forced march work have not been as diligent. And they have to be moved along. If we can get paid in the process, that's fine, but the truth of the matter is, we need to get these other three things accomplished, or our business is in jeopardy.

Victor Miller: Any other questions?

Kevin O'Brien: Yes, I also think, by the way . . . I think one of the great things for us is that people like you, Mr. Ostroff, and people like David Smith have been the standard bearers, have been the leaders in protecting this industry on digital. I wish we had more people like you and David Smith in this industry because – actually, I think David has taken grief for his stand on the digital methodology and the delivery. And I just wish there were more people that would honor David Smith for what he has done rather than criticize him and say, well, he's at the same table again.

Jeff Smulyan: One other comment. Yes, we gave the analog signal away for free. We have a saying in Indiana, never shoot yourself in the foot when you can point the gun at your head. So, now, if we can give away all of our digital spectrum for free, why not? Let's perpetuate a disaster with more disaster.

Nat Ostroff: I just had a follow-up on that. The point that Gary Chapman made about the fact that we have no revenue from our digital signal is painfully, painfully true. However, it could be turned around and used as an asset in this sense. Since we have no revenue from that process, we have nothing to lose by withholding it from cable until they're willing to pay us for it.

Victor Miller: And that will be the final comment. Thanks.